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# Strategic Alliances and Shared IS/IT Infrastructures in B2B Marketplaces: An Exploratory Case

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# STRATEGIC ALLIANCES AND SHARED IS/IT INFRASTRUCTURES IN B2B MARKETPLACES: AN EXPLORATORY CASE

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## Abstract

*In the late 1990's researchers believed that B2B markets were set to revolutionise e-procurement. New marketplaces were being created on an almost weekly basis to cater for the procurement needs of numerous and diverse industry sectors. More recently however, researchers have noted that many B2B markets are under performing and failure rates are high. We draw upon research on strategic alliances and application service provision to explore the possibility of markets improving their performance through entering strategic alliances to share technology. We document and explain a model developed by Eutelia, a leading B2B market in the utilities sector to justify such technology alliances. We explain how Eutelia operationalised this model, through entering a technology alliance with another leading B2B marketplace. The results demonstrate that both markets benefited from this technology alliance and that Eutelia achieved significant performance improvements. We believe that other marketplaces could potentially improve their performance through similar alliances.*

*Keywords: B2B Marketplaces, Strategic Alliances, Technology, Performance.*

## **1 INTRODUCTION**

Business to business (B2B) electronic markets are an innovative form of interorganisational information system (IOS), utilising the Internet and web technologies to provide shared infrastructure and a means for commercial exchange (Dai and Kauffman, 2002a). Operating as an intermediary, an electronic market hosts and operates the systems for firms to purchase and sell products. In the late 1990's the number of horizontal and vertical B2B electronic markets being established increased enormously. However, recently, the formation of such marketplaces has been declining and failure rates are high (Klueber et al, 2001). It is clear that the return on investment (ROI) promised at the time of the dotcom hype are not being realised in the timescale promised. Some of the key reasons for this include; delays associated with customer adoption (Senn, 2000; Wise and Morrison, 2000); the level of investment required (Angeles, 2001); and high profile failures and competition between marketplaces (Philips and Meeker, 1995; Klueber et al, 2001). As a result, many marketplaces are examining ways to improve their performance (Dai and Kauffman, 2002a; Soh and Markus, 2002).

This paper examines the role of strategic alliances in improving the performance of electronic marketplaces, paying particular attention to the potential of alliances built around shared IS/IT infrastructures. A case study of a leading European utilities marketplace is used to explore how such an alliance may affect electronic marketplaces.

## **2 THEORETICAL GROUNDING**

“A strategic alliance [is] when value chain activities between at least two companies with compatible goal structures are combined for sustaining and / or achieving significant competitive advantages” (Bronder and Pritzl, 1992). Such inter-organisational co-operative relations are formed for a number of reasons. First, in order for inter-organisational collaboration to occur, there must be willingness among participants to collaborate and second, these participants must believe that this collaboration will result in adaptive efficiency (Alter and Hage, 1993). Adaptive efficiency is “the ability to change rapidly and at the same time provide customised services or products, and at low cost” (Alter and Hage, 1993). Other reasons for engaging in inter-organisational co-operation include; resource procurement and allocation (Galaskiewicz, 1985; Clemons and Row, 1992; Alter and Hage, 1993), political advantages (Galaskiewicz, 1985), risk sharing and acquiring expertise (Alter and Hage, 1993), stability (Oliver, 1990), legitimacy (Galaskiewicz, 1985; Oliver, 1990) and efficiency (Oliver, 1990; Clemons and Row, 1992). Research has demonstrated that strategic alliances are established to minimise transactions costs (Pisano, 1989; Hennart, 1991), and that such alliances can lead to better financial positions for the organisations involved (Chan, Kensinger and Keowm, 1997).

Henderson (1990) proposed six determinants of co-operative partnerships such as strategic alliance. These are broadly in line with the reasons for establishing organisational co-operation as identified above, in that they focus on mutual advantages. These determinants can be categorised along two dimensions; partnership in context and partnership in action. Partnership in context refers to the extent that those co-operating believe that the partnership will be sustained over time. Partnership in action refers to the degree to which those co-operating are able to effect policies and decisions regarding the operational performance of the partnership (Henderson, 1990). The partnership in context determinants are; (a) Mutual benefits, such as financial returns, process or product innovations, risk sharing and the ability to create a positive working environment, (b) Commitment. The three major indicators of commitments are shared goals, incentive systems, and contracts, and (c) Predisposition. The indicators of an existing predisposition in favour of the partnership are trust and existing attitudes and assumptions. The partnership in action determinants are; (a) Shared knowledge among participants in the network, (b) Mutual dependency on distinctive competencies and resources such as market knowledge, management skills, product attributes etc., and (c) Organisational linkages, such as physical process integration, information integration, and social networks (Henderson, 1990).

In addition to the benefits of organisational co-operation, a number of costs can be identified. These are generally referred to as co-ordination costs and transaction risk. Co-ordination costs are the costs of co-ordinating activities among co-operating entities. Transaction risk is the possibility of opportunistic behaviour by one or more partners, which would reduce or eliminate the benefits of co-operating. Transaction risk is increased when an organisation makes an investment that has little or no value outside of the co-operative entity, or when an organisation loses control over an asset as part of the co-operative agreement. Asymmetries in information leading to problems in monitoring the performance of partners also increases transaction risk (Clemons and Row, 1992).

In applying the strategic alliance concept to electronic marketplaces, Dai and Kauffman (2002a) propose four types of B2B alliances;

1. Marketing alliances. These permit B2B e-market firms to promote and distribute their services. The alliance between ProNetLink.com ([www.pronetlink.com](http://www.pronetlink.com)) and the NetlinQ group for the marketing and promotion of ProNetLink.com in Holland is an example of a marketing alliance.
2. Participation alliances. These support the creation of cooperative relationships by B2B e-market firms with other firms that buy and sell on their exchanges. DuPont use of the specialised e-market AssetTRADE to buy and sell equipment is an example of such an alliance.
3. Functionality alliances. These allow B2B e-markets to cooperate with other firms to enhance the set of functionalities that they offer to facilitate online transactions. The strategic alliance between the marketplace bandwidth.com and byers engineering company to offer the telecommunications industry a unique matchmaking service aimed at reducing the cost of constructing new fiber routes is an example of a functionality alliance.
4. Connection alliances. This is where a B2B marketplace establishes linkages with partners so that partners' clients can have preferred access to the electronic marketplaces that the B2B firm is operating. An example of a connection alliance is the mutual agreement between Chemcross.com and CheMatch.com, two leading markets in the chemical industry, which will allow ChemCross access to CheMatch's global trading network and information resources.

Dai and Kauffman (2002b) illustrate their analysis by examining how different firms have benefited from alliances. However, they do not explicitly consider the issue of infrastructure alliances whereby marketplaces could share the underlying IS/IT infrastructure.

Researchers (e.g., Perrow, 1967; Woodward, 1965) have traditionally examined the influence of technology on organisational structure by investigating the effects of the technology. Such approaches were based upon a limited view of the process by which technology is designed and implemented (Robey and Sales, 1994). This view proposed that technology is inflexible and a given. The phenomenon of interest was therefore the impact of technology on organisations. A more evolved perspective of the relationship between technology and organisations proposes that while technology influences organisations, organisations at the same time, influence the design, implementation, and use (i.e., appropriation) of the technology to suit their requirements. The organisation-technology relationship therefore is more appropriately characterised as a mutually adaptive structuration relationship rather than the unidirectional relationship implied by early researchers (Poole and Desautels, 1990; Kumar and Van Dissel, 1996).

Recent views propose that information technology has the power to create inter-relatedness among firms, markets, and products. In this way it can alter the competitiveness of an industry and the nature of inter-firm rivalry. In some instances it can change the route to success within an industry from competition to collaboration (Rotemberg and Saloner, 1991). It is also accepted that information technology can reduce the cost of co-operating by decreasing both transaction risk and co-ordination costs (Clemons and Row, 1992).

Dai and Kauffman (2002b) note that a B2B marketplace's IT infrastructure is a key element influencing its chances of success. To date, this infrastructure has been considered an important propriety asset. The issue of IT infrastructures has recently been examined by Carr (2003). He argued that infrastructural technologies offer most value when shared among organisations rather than used in isolation. Shared IT infrastructures can be operationalised as Application Service Providers (Fantasia, 2000) and shared service centres (Cecil, 2000). However, such concepts have not been routinely applied to electronic marketplaces where a proprietary approach to technology infrastructures has been the norm.

In summary, it is clear that the cost of developing the technological infrastructure is quite large for electronic marketplaces. The current business environment is forcing such markets to reduce overhead by driving down the cost of IS/IT expenditure. In this context, electronic marketplaces could consider the option of a strategic alliance to share the costs and benefits of owning and managing IS/IT infrastructures. However, such infrastructures have traditionally been regarded as an important element of a marketplace's competitive positioning.

### **3 RESEARCH APPROACH**

Corbitt (2000) advocates the need for interpretative methods in studying IS issues, especially in inter-organisational electronic business environments. Case studies are regarded as the most commonly used qualitative research method in IS.

The single case study method is considered to be a potentially rich and valuable source of data, suited to exploring relationships between variables in their given context (Benbasat *et al* 1987), and is appropriate where it represents a critical case (Yin 1994). Remenyi (1998) argues that it is essential to use multiple sources of evidence when conducting a single case study as it helps ensure validity. The data gathering techniques used were semi-structured interviews and document analysis. Semi-structured interviews enhance the overall quality of the data gathered by allowing researchers to clarify questions and responses, and to explore new dimensions. Yin (1994) argues that documentation can be utilised to supplement and verify data from other sources. Furthermore, the use of multiple sources is considered to be a particularly strong tactic in ensuring the validity of research (Remenyi, 1998).

The subject of the case was chosen as it represents a critical case in relation to improving the performance of a B2B market through a strategic technology alliance. Data gathering took place over a 3 month period from July to September 2003. The researchers began by reviewing all relevant documentation on the organisation before designing a case study protocol. Subsequently, interviews were conducted at Eutillas headquarters in Leiden, the Netherlands. Members of staff in various roles within the organisation were interviewed. Those interviewed included the IS manager, commercial manager, auctions manager and numerous business and IT analysts. These people would be viewed as key members of staff within the organisation. Interviews were recorded and transcribed. Information was also obtained from secondary sources; newspapers and trade magazines. The accuracy of all data was verified through document exchange via email and conference calls.

### **4 FINDINGS**

This section examines the findings of the case study. First the case background is explained. This is followed by an examination of how the marketplace operates. The need for a change in direction is examined, and the approach to developing a technology alliance is explored. The model used by the marketplace to examine the alliance decision is explained, and operationalisation of the decision made is outlined.

## 4.1 Background

Eutilia is a leading pan-European marketplace for the utility sector, offering source-to-pay services to buyers and suppliers. Headquartered in Leiden, the Netherlands, Eutilia is an independent market, with the financial backing of eleven of Europe's largest utility providers including Electrabel (Belgium), Electricite de France (France), Endesa (Spain), ENEL (Italy), Iberdrola (Spain), Nuon (Netherlands) and RWE (Germany). At set-up, Eutilia received €63m from the eleven founding members. These eleven members account for the vast majority of the annual European procurement spend in utilities.

Eutilia was created as a result of the European Commission's decision to liberalise the utilities market across Europe. At the time of its formation, Eutilia's CEO noted that "until now there has been a lot of protectionism throughout Europe, so there are a lot of inefficiencies in the utilities relationships with suppliers". Indeed the European Commission gave Eutilia the go-ahead to operate in an area governed by public procurement directives precisely because it was opening-up the utility market by supporting fair business practices and encouraging competition. In this context, the CEO argues that the advantage of using an electronic marketplace is "is not so much about price; it is more about having better processes and improved transparency".

## 4.2 Supporting Procurement Processes

Eutilia supports the procurement process through a range of on-line tools and services, and has introduced a sourcing optimisation service (SOS) for global utilities. SOS starts with the requirements of buyers being checked against Eutilia's database of suppliers. The SOS consists of four key components;

- Supplier scan
- Pre-Qualification
- E-tendering
- E-Auctions

The supplier scan service is an on-line and off-line search for potential suppliers by sourcing experts within Eutilia. The supplier scan is usually tailored to the specific needs of a customer. The service can be used to generate a long list of potential suppliers, or taken a step further to apply specific search criteria. In addition, the customer can also commercially pre-qualify potential suppliers using Eutilia's commercial assessment service (SCA). Eutilia's Chief Commercial Officer points out that pre-qualification is a complex multi-part process which can take many companies a number of years to complete. He stated "we do general pre-qualification; we examine the financials, health and safety record and environmental attitudes for example". He argues that there are big savings if buyers in different companies accept the same pre-qualification criteria.

Eutilia's Supplier Commercial Assessment (SCA) service is an important advance in making the assessment and selection for suppliers as easy and transparent as possible for utility industry buyers. SCA enables the identification of new suppliers by virtue of a shared centralised database of utility suppliers. All utilities using SCA are obliged to share their supplier data with other users. Therefore quality of data is assured through Eutilia's verification process. Data is validated annually to ensure the accuracy of supplier information. Eutilia believes that by using the SCA service, it can save up to 60 days out of the overall procurement process when compared with traditional competition.

Eutilia's e-tendering solution enables procurement professionals to electronically develop centrally stored tender documents, to manage distribution, to communicate simultaneously with all bidding suppliers, and to support an efficient evaluation of responses. Eutilia believe the advantages of this solution to include reduced sourcing cycle time; there is no paperwork as the e-tenders are on-line and can be easily stored for future use. E-tendering is also fully integrated with all other functions allowing a fully automated transfer to e-auctions.

Eutilia's e-auctions support the existing procurement process by enabling real time negotiation between suppliers and buyers via electronic web-based bidding. To date Eutilia has conducted hundred's of auctions. Options include utilising multiple variable bidding (MVB) which allows the buyers to precisely specify all the variables that they are seeking from the contract. Therefore, variables other than price may be specified.

As a result of customer demands, Eutilia launched their transaction services in November 2002. Based on contractual agreements between trading partners on the buy and supply sides, the Transaction Services enable the fulfilment of electronic transactions using pre-negotiated prices and service levels set by trading partners in private catalogues. Instead of needing multiple links to buyers and suppliers, each participant requires a single connection to the Eutilia marketplace. By adding products and or services to a shopping cart from the Eutilia marketplace catalogue or other supplier catalogues, the authorised buyer sets in motion a chain of events that results in automatic fulfilment and administration of the operational procurement process.

#### 4.3 The Need for Change

It was evident by 2002 that Eutilia was not achieving its desired level of performance, and was unlikely to achieve its stated aim of being 'cash positive' by mid 2004. The company recognised that the adoption of e-procurement by both buyers and sellers in the utilities sector was very sluggish, and forecasted rates of adoption were unlikely to be realised.

Resistance to change by utilities was a key issue impacting on Eutilia's performance. Many buyers and sellers had established business processes and were unwilling to change. In addition, there was unwillingness among many suppliers to utilise markets such as Eutilia as they saw them as being buyer-biased. Many believed that markets would impact upon the prices received for their products. Also, for both buyers and sellers there was still a question mark over whether the efficiencies to be gained by utilising the market merited the required investment.

Indeed, many of Eutilia's founding members had not utilised Eutilia for procurement purposes. Two reasons for this are evident. First, for such large organisations, the sums needed to take an initial stake were relatively small in comparison to the risk of being left out. Second, some of these organisations also created their own B2B markets which lead to non-utilisation or limited utilisation of Eutilia by these parties.

The ownership structure of Eutilia involved each of the founding organisations having a representative on the Board of Directors. The consensus among staff within Eutilia was that this resulted in a board that was too large. The board consisted of accountants, middle managers and procurement experts, nominated by the eleven founding members. Difficulties have resulted from the diverse backgrounds of those on the Board. In particular, getting consensus among these people proved difficult, and led to non-decision making. As a result, Eutilia lacked an agreed strategic focus and a long term business plan.

Eutilia decided that there needed to be a change in the ownership structure. A small number of the founding members agreed to buy out the other members, leading to a reduction in the number of owners from 11 to 6 and a more streamlined governance structure. Many staff within Eutilia believe that this will lead to more efficient decision making. Also, they believe that these five members will utilise the Eutilia marketplace for all of their procurement needs.

#### 4.4 Technology Alliance

By late 2002, management realised that they needed to consider other initiative in order to improve the performance of the marketplace. In early 2003 management decided to examine the cost and asset structures in order to establish how further revenues could be generated, and assets utilised to full potential. Management noted that Eutilia had spent large sums of money developing and implementing

its technology infrastructure. Yet the return on this asset was not being maximised. In addition, a large amount of spare capacity existed as the uptake of eprocurement hadn't matched forecasted levels. Given the prevailing business environment, Eutilia needed to maximise its ROI from the technology investment and reduce costs. While examining ways to achieve these goals, they considered a technology alliance. The idea was that Eutilia would act as a service provider by making their technological infrastructure available to other markets. Eutilia began by outlining and analysing the factors which impact upon the cost structure of the market, and developed a model to explore the costs possible savings from entering a technology alliance with other markets. These factors included in this model are outlined in table 1.

<b>Elements</b>	<b>Definition</b>
Technology Costs ( <b>T</b> )	<b>Two elements;</b> Hardware and Software <b>Hardware</b> incorporating hardware, hosting infrastructure and managed services (OS, DB and Security) <b>Software</b> costs – license investment and license maintenance
Hosting Technology Costs ( <b>Th</b> )	Marketplace infrastructure costs (servers, marketplace platform)
Software Technology Costs ( <b>Ts</b> )	Software platform costs e.g. commerce one, catalogue software, license fees
Resource Costs ( <b>R</b> )	Incorporates 2 generic groups of resources which can be found within a typical marketplace: Core resource staff ( <b>Rc</b> ) Technical resource staff ( <b>Rt</b> )
Technical Resource Costs ( <b>Rt</b> )	All technical staff employed in the marketplace (excluding 3 <sup>rd</sup> party service provider staff)
Core Resource Staff ( <b>Rc</b> )	Non technical staff who are core to the marketplace business model

*Table 1: Elements which impact on Eutilia's cost structure*

There are two key elements underpinning Eutilia's technology alliance model; technology costs (**T**) and resource costs (**R**). According to the model, the operational cost of a B2B electronic market (**Cm**) is composed of the sum of technology costs (**T**) and resource costs (**R**) in relation to building and operating the market.

$$\mathbf{Cm = T + R} \quad (\mathbf{a})$$

Eutilia subdivide technology costs (**T**) into two components namely hosting costs (**Th**) (e.g. servers, internet access and managed services) and software costs (**Ts**) (license investment and licence maintenance).

$$\mathbf{T = Th + Ts} \quad (\mathbf{b})$$

Resource costs (**R**) are also split into two components. Core resources (e.g. finance staff, IT support staff) which are a key component of every marketplace and specialist resources (market experts, component experts) which are specific to the particular industry sector in which the marketplace operates.

$$\mathbf{R = Rc + Rt} \quad (\mathbf{c})$$



#### 4.4.1 Hosting Costs (*Th*)

The model developed by Eutilia assumes a multi-server architecture over two locations. The current value for technology hosting costs (**Th**) is set at 720k. In line with the scenario that Eutilia found itself in it is assumed that one marketplace is utilising 30% of installed capacity, allowing room for at least two equivalently sized markets. Assuming that all parties would utilise the same marketplace platform, two partners would immediately achieve a dramatic savings in hosting costs by sharing the infrastructure. Further savings could be achieved by sharing the infrastructure utilised to support the applications, for example using one server to host both company's procurement tool. With this in mind they predict that a further 5-10 percent efficiency could be achieved. They estimate that any increase in participants beyond 2 is assumed to multiply (**Th**) by a factor defined in table 2.

Participants (x)	1	2	3	4
Th factor (p)	1	1	1.4	1.6
Rt factor (k)	1	1.2	1.4	1.6

Table 2: Incremental factor

#### 4.4.2 Software Costs

The model assumes that the shared marketplace would utilise the same software platform, for instance CommerceOne Marketsite. The value of technology software costs (**Ts**) assumed in this model is the yearly maintenance on the software. In Eutilia's case, the current value for **Ts** is 350k of which 50k can be attributed to applications. The model assumes that a qualified partner would need to own a marketplace license, for example a CommerceOne marketsite licence. The maintenance on this license would then be reduced according to whatever deal is negotiated with the licence vendor by the sharing marketplaces. Eutilia management believe that the cost of maintaining this licence could be significantly reduced by leveraging the collective bargaining power of the partners. Licenses such as the CommerceOne.net license enable multi-vertical communities. Eutilia estimate that total license maintenance per participant would be 200k, delivering a 33% efficiency compared to what a marketplace would pay in maintenance on its own.

Applications other than those provided by Eutilia would however require a separate license investment. Joining marketplaces would include their existing license portfolio for utilisation, and would help to reduce the probability of further application licences investment. Eutilia purport that this would be one of the major advantages over a typical ASP provider as, what they term, 'multi-strategic roadmaps' may be supported at very low cost if the assets are already procured. Further efficiencies could be achieved by sharing applications for products which allow multi-enterprise usage and agreement of joint application roadmaps leading to the maintenance on excess applications being cancelled.

#### 4.4.3 Resources

The model assumed that two generic groups of resources exist within a typical marketplace: core resources (**Rc**) and technical resources (**Rt**). Based on analysis conducted by Eutilia, a split of 70:30 is typical between **Rc** and **Rt**. Based on the situation at Eutilia, the model was designed with the following staffing levels in mind: thirty two core staff<sup>1</sup> and ten technical staff<sup>2</sup>. From a cost perspective resource costs for €4.4m per annum are assumed, of which around 20% can be attributed to (**Rt**).

<sup>1</sup> Sales, sourcing experts, finance, HR, operations, business analysts

<sup>2</sup> IS manager, project manager, operations engineer

The method suggested by Eutilia to achieve efficiency is to separate core technical (**Rt**) from the business staff and to staff the infrastructure component with technical people. This technical group is intended to serve the requirements of all hosted parties, and be responsible for building, operating and maintaining the technology infrastructure. The resource group could be increased in proportion to reflect the number of participants in the marketplace by the factors shown in table 2. Core resource costs (**Rc**) would remain within the marketplace organisations and are therefore deemed to be constant. This is because these resources are unique for every marketplace business model. For example, electricity utility sourcing experts from a direct goods, vertical marketplace would not be shared with an indirect goods, horizontal marketplace.

With the incremental increase in costs as the number of participants increase (table 2), equations (b) and (c) are now represented as follows:

$$T = (p \text{ Th}/x + \text{Ts}/x) \quad (\text{b})$$

$$R = (k \text{ Rt}/x) + \text{Rc} \quad (\text{c})$$

#### 4.4.4 Illustrating the Gains with Sample Figures

This model is proposed to highlight the efficiencies for B2B markets in pursuing technology alliances. It illustrates the efficiencies which could be achieved from sharing an infrastructure and the associated technology resources. Sample figures used by Eutila to explain the model are shown in tables 3, 4, and 5. These tables illustrate the efficiencies that could be achieved by sharing a platform and resources.

No Participants	1	2	3	4
Th	720,000	540,000	528,000	504,000
Ts	350,000	250,000	250,000	250,000
T	1,070,000	790,000	778,000	754,000
Efficiency		26%	27%	30%

Table 3: Hosting Costs

No Participants	1	2	3	4
Rt	1,000,000	600,000	466,667	400,000
Rc	3,400,000	3,400,000	3,400,000	3,400,000
R	4,400,000	4,000,000	3,866,667	3,800,000
Efficiency		9%	12%	14%

Table 4: Resource Costs

No Participants	1	2	3	4
T	1,070,000	790,000	778,000	754,000
R	4,400,000	4,000,000	3,866,667	3,800,000
Cm	5,470,000	4,790,000	4,644,667	4,554,000
Efficiency		12%	15%	17%

Table 5: Total Costs

The efficiencies outlined in Eutilia's model are focussed upon reducing the cost of technical hosting, systems maintenance and technical resources. When concentrating on these values alone the efficiencies that can be achieved by sharing can amount to approximately 40% for two parties. Larger savings are evident as a greater number of marketplaces become involved as documented in Table 6.

No Participants	1	2	3	4
Th (Marketplace)	360,000	180,000	168,000	144,000
Ts (Marketplace)	300,000	200,000	200,000	200,000
Rt	1,000,000	600,000	466,667	400,000
Total	1,660,000	980,000	834,667	744,000
Efficiency		41%	50%	55%

Table 6: Overall Efficiency Gains

#### 4.5 Operationalising the model

The model developed by Eutilia illustrates that there are many efficiency gains to be achieved by marketplaces from entering technology alliances. The model illustrates that a technology alliance for B2B marketplaces would reduce hosting, software, and technical resource costs for all market participants. In addition, a technology alliance would be beneficial to Eutilia by enabling them to maximise their ROI on their technology infrastructure as they would benefit from revenues earned as the service provider. Managers at Eutilia consequently concluded that a technology alliance with other B2B markets would be advantageous.

The next step for Eutilia was to operationalise the ‘technology alliance’ strategy. The first step was to find suitable partners. Eutilia’s ownership structure proved useful in this regard. Two of the founding members, RWE (through its subsidiary Thames Water) and Ondeo (France) launched a new marketplace in the utilities sector; Aquadia. While Aquadia focuses specifically on the water industry, it operates in the same market segment as Eutilia. Indeed, Aquadia and Eutilia would be deemed to be competitors. Yet RWE and Ondeo agreed that there were efficiencies to be realised for both markets through entering into a technology alliance. Under the terms of the alliance agreement, Eutilia provides the transactions platform, technology and expertise that underpin Aquadias business offering by providing the procurement solution and hosting the customer support centre. Aquadias transaction services, which are provided by Eutilia incorporate the following;

- A hosted buying and supplying solution: The procurement solution is web based and accessed via the Internet.
- Catalogue management: The catalogue management tool is based on Poet’s<sup>3</sup> eSupplierWeb. This solution enables the creation, maintenance and distribution of customised catalogues on a supplier self service basis. It provides a browser based interface for all catalogue management tasks.
- Electronic invoicing: An inherent part of the transaction services solution provided.
- Customer support: Provided by Eutilias technical support staff.

The in-house architecture design and technical knowledge made the ASP hosting of an additional marketplace feasible. This enabled the implementation of an ASP marketplace customer with minimal technical contribution from a third party consultancy agency (Accenture).

In practice, Eutilia simply rebrands their applications with the Aquadia logo. Where Eutilia has established partnerships with technology providers such as CommerceOne and POET then the efficiencies in relation to licensing (**Ts**) outlined in the model have been realised, providing benefits for both organisations. Other efficiencies and costs savings documented in the model have been achieved. For example, both Eutilia and Aquadia utilise the same customer support personnel. Therefore the economies of scale that could be achieved in technical staff (**Rt**), documented in the model were achieved. One of the key advantages of this alliance is that Aquadias customers benefit

<sup>3</sup> POET software is a software company that provides solutions for creating, managing and distribution of electronic catalogue data. POET software delivers catalogue technology for Eutilia’s catalogue services

from the full range of transaction services that prior to this alliance would only have been available to Eutilia's customers. In real terms Aquadias customers are not even aware that the application is being designed and supplied by Eutilia. With regard to performance Eutilia have received substantial fees from Aquadia for service provision and managed services (service delivery, service support and application management).

The irony of Eutilia providing an infrastructure and platform to Aquadia, a key competitor is remarked on by a number of staff at Eutilia, who note that some commentators may view the alliance as "confusing". Yet the CEO of Eutilia argues that from a business perspective, the technology alliance "makes sense to make technology available to as many players as is possible. There is a lot of consolidation in marketplace capacity". Most importantly, from a return on investment perspective, the results cannot be questioned. Eutilia has noted a significant improvement in their financial position through increasing the return on the investment in their technology infrastructure, and through economies of scale that have helped to reduce operational costs.

## 5 CONCLUSION

This paper explored the efficiencies which B2B markets can achieve through technology alliances. It draws on existing literature in the area of strategic alliances and service provision to explore the possibility of B2B markets improving their performance through technology alliances. The paper outlined a model developed and utilised by one marketplace to justify pursuing a technology alliance strategy and becoming a service provider. Although this model is case specific, it illustrates the significant cost savings and efficiencies which could be achieved through technology alliances. It demonstrates that there are efficiencies for both the market providing the service and the participant markets through a technology alliance. However, this study is limited as it focused on just one marketplace. In conclusion we believe that B2B marketplace could use technology alliance to improve their performance, and potentially increase their return from their investment in technological infrastructures. Further research will be required to test this hypothesis.

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